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Soviet Economic "Reform" Decrees: More Steps on the Treadmill

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A Research Paper

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Soviet Economic "Reform" Decrees: More Steps on the Treadmill [redacted]

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A Research Paper

Information available as of 2 April 1982 has been used in the preparation of this report.

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This paper was prepared by [redacted] the Office of Soviet Analysis. Comments and queries may be addressed to the Chief, Soviet Economy Division, Office of Soviet Analysis [redacted]

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Soviet Economic "Reform" Decrees: More Steps on the Treadmill [redacted]

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Overview

In July 1979 the Soviet leadership issued a decree setting forth new measures to improve planning and performance of the economy. This decree, together with its more than 80 implementing regulations and a July 1981 amendment, is no more likely than its predecessor of October 1965 to raise the economy's efficiency. Indeed, by forcing managers to spend more time coping with increasingly complicated regulations, the latest "reforms" may make matters worse.

The principal goals and features of the new arrangements, presumably to be in effect in the llth Five-Year Plan (1981-85) and beyond, are:

- To improve *planning* by focusing on five-year rather than annual plans and on integrating a few comprehensive programs. All plans are supposed to be "balanced" (in terms of input and output) and to remain stable for the five-year period.

- To link *prices* more with costs by introducing new industrial wholesale prices on 1 January 1982, incorporating in them a new charge for water usage and sharply higher social insurance taxes.

- To replace a major *success criterion*—gross value of output, which leads enterprises to prefer expensive inputs—with another indicator, "normative net output" (average value added).

- To tie enterprise and worker *incentives* to a variety of five-year plan targets, measured in physical units as well as in rubles and focused on raising efficiency and product quality.

- To require all entities—from enterprises to ministries—to *finance* their operations from their own funds and bank credits, rather than receive partial funding from the state budget.

- To make the *investment process* more effective by requiring that approved plans remain unchanged for the five-year period, that all plans be backed with the requisite material and financial resources, and that bank credits rather than customers' funds be used to finance construction in progress.

Many of the new measures are aimed directly at resolving two problems that Soviet planners rightly regard as especially critical—limiting the demand for labor and economizing on the use of fuel and raw materials.

Because increments to the labor force will decline drastically during the 1980s, the authorities must limit labor demand to supply to keep the growth of wages in line with slower growth in consumer goods and services. This effort is linked to the need to boost labor productivity by squeezing out the "hidden labor reserves" that Soviet planners believe are ubiquitous. The new measures include compilation of regional labor balances, imposition of employment ceilings, tightening of work norms, tying managerial bonuses to meeting plans for labor productivity, allowing firms to keep the wages saved by meeting plans with a reduced work force, and organizing work brigades as a means of imposing group discipline. Although these measures should aid the planners in facing difficult manpower problems, probably the most effective factor will be that extra workers will simply not be there.

Other measures are intended to cope with shortages of critical raw materials that threaten the economy. These measures include a greatly expanded role for plan targets focused on savings on such resources per unit of output, imposition of tighter input reduction norms in physical terms, and directly tying incentives to meeting targets. The new prices will raise the cost of most raw materials, and the shift to net output targets is intended to remove the incentive to maximize the use of intermediate inputs. Most of these measures have advantages but their effectiveness will be severely diminished by the inability of new rules to eliminate the old indicators. There simply are too many conflicting indicators. Also, in an essentially unchanged environment, the response of enterprises to new cost relationships is likely to be sluggish and limited.

Various measures are aimed at improving economic performance in general. The new planning emphases reflect the Soviet planners' *idee fixe* that better plans will guarantee better performance. Eleven of the much touted "comprehensive programs" have been included in the 1981-85 plan. Many more plan balances are being prepared than ever before. An array of new incentive arrangements to improve product quality and a complicated new state certification procedure have been introduced. Still other provisions and organizational rearrangements are designed to solve the perennial problems created by the cumbersome system of distributing material inputs to producers, notably a greater role for contracts and stiffer penalties for violations. A package of financial provisions is aimed at

eliciting more efficient operations everywhere. Finally, new centralized organizational structures have been set up to coordinate several large programs and to oversee the campaign to enforce raw material and energy savings.

The changes in working arrangements do not constitute a genuine reform of the economic system. Rather, they reinforce the traditional features that have wasted resources on a grand scale. Because planning is now more centralized, rigid, and detailed than ever before, the producing unit is more fettered. Producer goods are more tightly rationed; administratively set, average cost-based prices are retained; and Byzantine incentive systems tie rewards and punishments to meeting plan targets expressed in physical units. The modifications of the past two and a half years are no panacea for the Soviet economy. Rather, they move the system away from the decentralization, flexibility, and introduction of market elements, which most Western (and some Soviet) critics believe are needed.

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Introduction

In July 1979 the CPSU and the Council of Ministers adopted the omnibus Decree 695 setting forth a wide range of measures to improve planning and the performance of the economy. This decree represents the second major attempt of the Brezhnev leadership to deal comprehensively with the chronic ills of the so-called economic mechanism.[1] The first attempt was embodied in the set of measures launched in October 1965—the "Kosygin reforms." Those measures:

- Restored the traditional system under which sectoral ministries manage economic activity.
- Carried out a major revision of industrial prices, centralizing administration of prices in a newly formed agency—the State Committee for Prices.
- Attempted to centralize the rationing of producer goods in a new agency—the State Committee for Material-Technical Supply (Gossnab).
- Raised the operational role of the five-year plan, which was now to be based on detailed long-range scientific and technical forecasts.
- Instituted a new system of incentives for enterprises focused largely on sales and profitability (return on capital).
- Gave enterprises a little more freedom in managing labor and investment.

When the desired improvements did not occur, the reform measures were modified several times over the next decade. Indicators of product quality and labor productivity were added to the list of determinants of managerial rewards, and incentives were supposedly linked to fulfilling contractural obligations. On the planning front the five-year plan was made legally binding at the same time that a system of counter-planning was introduced. In the process, many experiments were officially endorsed, all designed to uncover so-called hidden reserves and to remove one or another aberration prevalent under existing arrangements.

The comprehensive July 1979 Decree and over 80 followup issuances:[2]

- Reinforced the shift of the focus of planning and incentives from annual plans to five-year plans, which are to be balanced and to remain stable.
- Authorized the major industrial price reform of 1 January 1982.
- Revised the system of plan indicators and incentives to emphasize targets based on net output rather than gross output.
- Upgraded the role of so-called comprehensive or program-goals approaches to planning and management of economic activity.
- Outlined a program for gradual transfer of all economic entities to complete self-finance, beginning with industrial ministries.
- Attempted to make the investment process more effective by requiring that approved plans remain unchanged for the five-year period, that all plans be backed with the requisite material and financial resources, and that bank credits rather than customers' funds be used to finance construction in progress.
- Detailed other measures aimed at particular problems or particular sources of inefficiency.

The 1979 Decree and subsequent implementing regulations have set the planning and incentive arrangements that, unless subsequently modified, are to prevail beyond the 1981-85 plan. They are intended to enable the USSR to cope with declining productivity growth rates and growing resource constraints of unprecedented severity. Factor productivity declined

[1] This and all subsequent footnotes to the text appear at the end of this paper.

during the 1970s. Throughout the 1980s, the growth of the labor force will be only half that in the 1970s. Production of critical materials—fuels, minerals, steel, and lumber—has slowed considerably, and costs are rising sharply. Agricultural output has nearly stagnated, and costs per unit of output are also rising. Growth of the capital stock has slowed, and the return on investment has declined steadily. Thus, the USSR must substantially raise the return on resource inputs for economic growth to continue even at modest rates. Equally urgent is the need to radically improve the quality of output and remove the distortions in product mix that reduce the contribution of production to the economy. Soviet planners perceive these problems in all their severity. In addition to reducing growth targets, shifting investment priorities, and introducing policies to augment the growth of the labor force, they are counting on the latest modifications in the working arrangements of the production system as spelled out in the July 1979 Decree. The decree has triggered an avalanche of followup decrees, instructions, methodologies, and other bureaucratic activities. Some amend provisions of the July 1979 Decree, as does a major new party-government decree (published in July 1981) dealing with measures to elicit savings in energy and raw materials.

This paper describes the working arrangements now being introduced and assesses their likely impact on economic performance. It focuses, in turn, on three critical imperatives identified by Soviet planners themselves—the need to limit the demand for labor, the need to economize on raw materials and energy, and the general need to obtain more utility in terms of desired, efficient final output from combined inputs of labor, capital, and raw materials. Several of the new measures are aimed at solving all three problems. The impact of the new measures on the comparability of Soviet economic data is considered in the appendix.

Limiting the Demand for Labor

Soviet planners are convinced, correctly, that successful management of the quasi-market for labor in the 1980s requires severe restrictions on the demand for labor because there is little scope for augmenting supply beyond the small additions resulting from growth of the working-age population. Excess demand must be avoided, both nationally and locally, to prevent unplanned increases in wages that cannot be matched with goods and services. The effort to limit demand for labor at the level of individual enterprises also is part of the effort to raise labor productivity, especially by reducing gross overmanning. Some of the measures are directed specifically at balancing supply and demand, especially in local and regional markets; others are aimed at reducing demand for workers in individual firms, both by fiat and through targeted investment and incentives. Both types of measures are to be carried out in an economic environment featuring reduced growth of investment and serious efforts to restrict building new enterprises that have larger staffing requirements than an equivalent capacity achieved by expanding and modernizing existing plants.

Labor Balances. Not only will total labor force growth be slow in the 1980s, but rates of growth will differ widely among republics and administrative subdivisions. To provide a framework for assessing the critical regional dimension of the problem as well as the possibilities of coping with it, both five-year and annual balances of labor supply and requirements are now to be compiled for republics, krays, oblasts, rayons, and major cities. These balances are to be disaggregated by sex, sector, and skill level. The State Planning Committee (Gosplan) is required to submit the balances for the USSR and the republics to the Council of Ministers for approval. The State Committee for Labor and Social Problems is supposed to play a much larger role in this planning process, as are regional planning committees and local soviets. The central authorities ordered all enterprises, beginning in 1980, to submit their planned requirements for manpower to local soviets for review before sending the plans to ministries.[3] Also, ministries were ordered to supply subordinate enterprises with labor mainly from local sources and through intraministerial redistribution, rather than through centralized distribution. Finally a major party-government decree of March 1981, codifying some of these arrangements, ordered enterprises, regardless of subordination, to present their entire annual plans to local soviets, which are to review all matters concerning manpower and to confirm changes that affect labor requirements.[4] The press reports a great deal of local activity

in the field of labor planning. In the comprehensive plans for development of Leningrad and Moscow, for example, there are separate sections for labor; local authorities claim considerable success in restricting the growth of the labor force in their regions.[5]

In determining manpower needs at all levels, planning authorities are to be guided by tightened norms (planning factors) relating number of production workers to output and by leaner staffing patterns for white collar employees. This requirement, specified in the July 1979 Decree as implemented in a Gosplan instruction, calls for a review of the entire system of norms underlying the determination of labor requirements in industry to make them more "progressive," that is, tighter.[6] "Progressive" norms are also to be employed both in calculation of the planned wage fund, which is to be set on the basis of norms relating average wages to output, and in establishing the wage components of the values of net output for industrial products promulgated in January 1982 along with the new wholesale prices. Labor norms (for example, wages per ruble of output) are supposed to be consistent among the various uses to which they are put.

Incentives for Economizing on Labor Usage. The new arrangements, like their immediate predecessors, make success in meeting labor productivity targets an important determinant of the size of economic incentive funds and managerial bonuses. Other new planning features are intended to reinforce this generalized incentive to save labor. The new rules require that the wage fund be determined on the basis of stable coefficients relating wages to output (wages per ruble of output).[7] As noted, these norms are to be based on "progressive" manning factors and generally are supposed to remain unchanged during a five-year plan. Moreover, any savings in the wage fund beyond planned amounts are to go into enterprise incentive funds. This procedure, already adopted in over 2,000 enterprises, in effect carries on the 1967 Shchekino experiment (an effort to meet production plans with fewer workers at the Shchekino chemical plant).[8] Normative wage planning is scheduled to be introduced in 18 ministries in 1981 and in the remainder by 1983.[9] As under the Shchekino plan, enterprise managers are allowed to use wage savings to pay bonuses (up to 50 percent of regular wages) to workers who take on two jobs or similarly raise productivity. The new rules continue to penalize managers for wage overexpenditures, by charging them to the enterprise bonus fund and reducing managerial bonuses in the period in which the overexpenditure occurred.

Manpower Ceilings and Other Measures. The new arrangements contain other stringent requirements. First, beginning in 1980, ceilings on the number of employees were imposed on ministries and on enterprises.[10] Although the implementing instructions seemed to apply everywhere, evidently they were enforced only in industry. The industrial labor plan was only slightly exceeded in 1980, but there were complaints about the failure of many enterprises and ministries to observe the ceilings.[11] In late 1981, the Council of Ministers adopted a decree stating that beginning in 1982 annual plans will set an employment ceiling for all ministries, departments, and union republics.[12] The decree also specifies sectors in which employment growth rates are to be reduced and those in which employment levels are actually to be cut. Although some economists are urging penalties for violation of manpower ceilings, at present, penalties for overmanning operate only indirectly through the penalties for overexpenditure of the wage fund and for reduced labor productivity.

Second, the price of labor is being raised beginning in 1982 because of a large rise in the social insurance charge (from an average 7.5 percent of the industrial wage bill to a top rate of 14 percent). Third, the 1981-85 plan adds a new target to enterprise plans—a reduced number of manual workers in the total of production workers. Under the bonus statute, the ministry can make that target a determinant of the size of managerial bonuses. The idea is to substitute machines for men, freeing them for work elsewhere; thus, the instructions for implementing the new target require enterprises to submit lists of released surplus manual workers and their qualifications to local manpower offices for assignment.[13] Finally, workers are to be organized into brigades, mobilizing group pressures to meet production and productivity goals, with reinforcement provided by group bonus schemes.

Economizing on Use of Materials and Energy

The new working arrangements attack this objective, economizing on materials and energy use, on several fronts: (1) stiffer plan norms governing materials use; (2) establishment of materials use and cost-reduction targets for enterprises, with incentives tied to meeting those targets; (3) adoption of net output, rather than gross output or sales, as the principal measure of the volume of production; (4) revised methods of measuring output in physical units; and (5) price revisions.

Planning Norms. The normative base for planning and allocating raw materials and energy is being revised to enforce reductions in materials consumption per unit of product. Guidance for this vast effort at norm revision and extension was provided in the Gosplan issuance of 11 January 1980—"Concerning a System of Progressive and Technical-Economic Norms and Normative Measures for Their Introduction Into Planning." [14] The system is to include norms relating to labor, materials, investment, and finances. Although a 1981 article criticized ministerial and other lower level planning and research agencies for the slow pace of work in forming the revised set of norms, stiffer usage norms undoubtedly were incorporated into the 1981-85 plan.[15]

Resource-Saving Plan Targets for Enterprises. In the 1976-80 plan, Gosplan established annual targets for reduction in materials use per unit of output for 39 major raw materials. These targets were established centrally in enterprise plans, but evidently were not well enforced. The fact that incentives were not tied directly to their fulfillment probably had something to do with the shortfalls (although some sectors had special bonus arrangements for rewarding workers for saving on the consumption of particular fuels or raw materials). In the July 1979 Decree, reduction in materials use is among the plan targets for enterprises designated as "centrally established." Incentive arrangements for meeting those targets have been, in effect, left up to ministries; they may establish materials-use targets as determinants of incentive funds and managerial bonuses.

A major CPSU–Council of Ministers decree, published in July 1981, changes these arrangements substantially.[16] Major provisions of the new decree are:

- Gosplan and other responsible agencies are directed to expand the list of materials for which use-reduction targets are set and, beginning in 1982, to establish specific materials consumption norms for especially large materials users.
- In industry, construction, and transportation, beginning in 1983, cost targets are to be fixed centrally and are to include explicit limits on material expenditures expressed in rubles per unit of product.
- Beginning in 1983, enterprises will be allowed to transfer to their incentive funds any monies saved by reducing material expenditures below the assigned limit; conversely, exceeding that limit requires reductions in the funds of as much as 25 percent of their originally planned amount. In addition, beginning in 1982 and 1983, enterprise employees are to be given bonuses related to the material savings achieved compared with the limits set.
- Starting in 1982, additional groups of workers are to be paid bonuses for reducing material expenditures below those set in the new "progressive" norms.
- Responsible agencies are to review existing standards for products and services to reduce their materials-intensiveness, and penalties for violating standards will be stiffer. Special arrangements for economizing on the use of scrap metals were instituted in a CPSU decree on the subject issued in May 1980.[17]

Shift to Net Output Targets. For decades both Western and Soviet economists have pointed out the economic damage resulting from the use of gross value measures of output (GVO) to evaluate performance of enterprises. In the 1970s, numerous experiments were

conducted to test the use of the net output measure defined in various ways. The July 1979 Decree orders the change to the use of this measure, wherever appropriate. (However, gross value measures and value of sales must still be calculated and reported.) In general, net output is defined as gross output less purchased materials and depreciation and is equivalent to the sum of wages and profits, or value added. The transition to the net output indicator is to be made gradually, ministry by ministry; such targets were fixed in the plans of four ministries in 1981, with the rest scheduled to adopt the new measure in 1982 and 1983.[18]

The primary purpose of the transition to net output as a measure of plan fulfillment is to eliminate the revealed preference of managers for producing material-intensive output; the weightier and more expensive the inputs, the higher was the value of total output and the easier it was to meet the plan. With plan fulfillment evaluated by net output, the argument goes, enterprises no longer will have an incentive to favor material-intensive products, or in the case of machinery to goldplate them. If they do, costs will be increased and profits, a major element of net output, will be reduced.

Net output values (rather than gross values as before) are now to figure in evaluation of plan fulfillment with respect to output, labor productivity, and value of products in the highest quality category—the three major determinants of bonus funds. For a given enterprise, the total output will be determined, as now with respect to gross output, by summing net output values for all products, with the net output value for each one calculated as the product of the quantity produced and the normative net output value fixed for that product. Thus, normative net output for a given product is a species of price. The values were fixed by the State Committee for Prices and issued to enterprises simultaneously with the new wholesale price lists that took effect on 1 January 1982. A normative net output value is calculated for each product as the average branchwide value added for the product. Specifically, it is calculated as the sum of wages of industrial-production personnel, social insurance charges and profits, expressed per unit of output. Thus, normative net output values are fixed in accordance with the principles used for setting producer prices in general. It should be noted, though, that the profit rates used in setting net output values are expressed as percentages of cost (*sebestoimost'*) after deducting average material expenditures included in the wholesale price for the product.

Revised Physical Plan Indicators. The July 1979 Decree instructed Gosplan to review the physical measures that (1) figure importantly in compiling of material balances in planning, (2) are a key component in enterprise production plans, and (3) determine a manager's right to be paid bonuses. Gosplan was directed to find ways of incorporating into physical measures of output such factors as utility, quality, and "progressiveness." The aim was to remove the distortions and reduce the gross wastes created by measuring output simply in tons, meters, or number of units. Gosplan has announced that new physical indicators (unspecified) have been developed for 15 kinds of materials-handling equipment, and "improved" measures for 70 kinds of machinery.[19] Having found no way to avoid planning ferrous metallurgical products in tons, Gosplan has now determined that "dual indicators" are to be used for that sector and for some kinds of machinery. The indicators in the case of steel pipe are tons and linear meters. Under this dual system of indicators, it is not clear which one shall have precedence in determining whether plans have been met.

Prices. Although relatively few details of the new prices that took effect in January 1982 have been released yet, those for fuels, electricity, and other raw materials are scheduled to increase substantially. Coal and natural gas prices are to rise by 42 to 50 percent and oil prices by even more. Substantial increases have also been indicated for electricity, ferrous metals (20 percent), nonferrous metals (14 percent), and commercial lumber (40 percent).[20] In contrast, prices of many kinds of machinery and chemical products are scheduled to decrease. Aside from bringing prices into line with production costs, higher prices for energy and raw materials, coupled with revisions in incentive arrangements, are intended to promote conservation in general.

Improving Planning, Management, and General Economic Efficiency

This section considers an array of innovations not specifically directed at obtaining savings in labor or raw materials, but rather intended to improve the functioning of the economy in general, including, of course, efficiency in its use of those specific resources. We group the many changes under the following rubrics: (1) upgrading product quality, (2) improving the functioning of the wholesale distribution system, (3) revision of wholesale prices, (4) strengthened financial "levers," (5) changes in planning approaches and technologies, and (6) changes in organizational structures.

Upgrading Product Quality. In general, the changes in working arrangements stemming from the July 1979 Decree strengthen ongoing approaches. Thus, meeting plans for raising the share of output classified in the highest (H) quality category in total production, now to be assessed on the basis of net rather than gross output, continues to be a generally mandatory indicator for forming incentive funds and for determining managerial bonuses.[21] Price markups for products awarded the State Seal of Quality are increased substantially and the duration of the markups is lengthened.[22] Producer goods in the highest quality category may be priced with profit markups 50 to 125 percent higher than normally allowable rates. Profits from sales of goods with these price markups are allocated as follows: 70 percent to enterprise incentive funds, 15 percent to the ministry's central fund for financing research and development, and 15 percent to the state budget. Price rebates are imposed on production of goods in the lowest quality category (II) and on sales of output that was not certified as to quality on schedule: profits from such sales are confiscated in whole or in large part by the budget.

The procedures for state certification of the quality of industrial products are codified and strengthened by a Council of Ministers Decree issued in December 1979 and a followup Gosplan methodological instruction of June 1980.[23] All industrial products other than specifically excepted categories are to be submitted for quality certification to state certification commissions. Commissions are set up for individual products or groups of products as appropriate. The membership of a commission consists of representatives of the producing ministry (but not the enterprise producing the product), the ministry of the principal consumer of the product, the ministry designated as "head ministry" for making the product, the State Committee for Standards (Gosstandard), and, if appropriate, the State Committee for Construction (Gosstroy), the Ministry of Foreign Trade, the Ministry of Domestic Trade, or a republic Ministry of Services for the Population. The commission must be chaired by a representative of the consumer ministry or the State Committee for Standards (or Gosstroy) who must vote yes on any quality certification that is to be valid. In each case, the commission issues a certificate of quality, which is formally registered with Gosstandard and dates the validity of the certificate (one to three years); it also recommends to the producing ministries whether a product certified in the lowest product category (II) should be modernized or dropped from production. Enterprise annual plans specify schedules for submitting products for certification. When products are produced in violation of standards, sales of that output are not counted in the value of production for plan fulfillment evaluation, and enterprise incentive funds are reduced as a further penalty.

Finally, the government continues to push adoption of plantwide quality control programs, and the press lauds local and regional bodies that adopt areawide programs. To encourage enterprise willingness to produce high-quality products and new kinds of machinery, the new rules state that supervising ministries may revise enterprises' plans when failure to meet them occurs because an enterprise is mastering the production of high-quality producer goods or new consumer products.

Improving the Wholesale Distribution System. First of all, the perennially balky system of rationing and distributing producer goods is to be made to function better by ensuring that both annual and five-year plans are balanced. This means, among other things, increasing the number of products for which these balances are made. For the 1981-85 plan, Gosplan compiled material balances for 409 products and

distribution plans for 331, compared with 234 balances and no distribution plans in the previous plan.[24] Gosplan's distribution plans encompass 75 to 85 percent of output of the products concerned. In the 10-year plan now being worked on, Gosplan is compiling balances for 168 products. In annual plans, Gosplan makes balances for 2,044 products, 331 balances requiring approval of the Council of Ministers. Gossnab makes annual balances for 7,500 products, and the ministries for 25,000.[25] For the first time, regional plans contain material balances for five-year periods. Also, for the first time the five-year plan contains a separate section for material-technical supply.

The 1979 Decree and several followup issuances continue and attempt to reinforce previously decreed programs. Use of long-term contracts between enterprises is to be extended. By 1990, long-term contracts are supposed to encompass 80 percent of total industrial production of the relevant goods.[26] Already, they cover substantial shares of iron ore and steel products, cement, timber, and agricultural machinery. In 1980 there were 136,000 of them, involving some 12,000 enterprises and associations (27 percent of the total). Producers of consumer goods are to sign five-year contracts with appropriate retail organizations, mainly units of the Ministry of Trade. These so-called direct ties are supposed to remain stable and to be arranged to promote efficiency in the distribution process. Two major issuances regulate procedures for concluding these contracts and relations between buyers and sellers, providing stiffer financial penalties for violation of contract terms.[27] In addition, failure to deliver goods as specified in contracts results in deductions from incentive funds of the delinquent enterprise and denial of all or a part of bonuses to its managerial personnel. Finally, Gossnab is both to enlarge its network of small wholesale stores, where enterprises can purchase items without ration tickets, and to expand the practice of negotiating contracts with large enterprises or associations to supply them with all needed materials and equipment as a package deal.

To provide for handling bottlenecks and smooth out the production process in general, the 1979 Decree calls for building up Gossnab reserve stocks. Implementing this provision, Gosplan and Gossnab issued a decree providing for the setting of new reserve stock norms for 132 groups of products in the 1981-85 plan period. The new norms are substantially higher than those planned for 1980—three to four times as high for rolled ferrous metals, 1.5 times for steel tubing, two times for trucks, and four times for armored cable.[28] These stocks are a part of the system of reserves of the Council of Ministers, intended for general use in the economy as needed, but strictly controlled.

Revision of Industrial Wholesale Prices. A major revision of industrial wholesale prices, the first overall revision since 1967, took effect on 1 January 1982. The set of changes is in no sense a price reform, since the traditional Soviet approaches to administrative price fixing are retained intact. Thus, the new prices, like those they replace, are calculated on the basis of average unit labor, material, and depreciation costs plus an average percentage profit markup over cost. Excepted are crude oil and natural gas prices, for which a species of marginal cost pricing is used. Although little price information has been released thus far, several features of the new system have been described.[29]

First, the new prices will bring costs and prices generally into line by substantially raising prices of fuels, raw materials, and many manufactured products. The overall level of prices will be raised by an as yet unspecified amount; retail prices are to remain unaffected. The new prices are intended to enable the *average* enterprise in each branch to earn a normal profit, so that branches such as coal mining, peat, and lumber, will once more become profitable. Even so, a wide disparity in profit rates will exist, and many enterprises still will make losses. On the average, the new prices provide profit rates ranging from 12 to 15 percent among the various branches;[30] the profit rates are calculated relative to cost after deducting material expenditures.[31]

Second, the new prices incorporate certain costs that had been covered by the state budget from general revenues. Social insurance charges, which in industry range from 4.7 percent to 9 percent among branches,

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are to be increased by an average of 50 percent, with rates ranging to a maximum of 14 percent.[32] The new prices are to cover all costs of geological prospecting work, only about half of which had been covered previously. The stumpage fee, which is a cost to lumber users and is paid to the budget to finance forest management, is to be doubled. Finally, product costs underlying the new prices will include a charge for use of water, which beginning in 1981 will be imposed differentially on enterprises and will be paid into local budgets.

According to statements at a recent conference on price fixing, the State Committee for Prices has revised and promulgated nearly 2,000 price lists—300 all-union lists and 1,270 republic lists; altogether, some 900,000 individual prices and tariffs have been reviewed and approved.[33] Although details are sparse, it appears that the new price lists generally provide for finer differentiation to take account of relative quality, utility, and scarcity. In the case of crude oil prices, which are to rise 2.3 times, the number of regional price zones has been cut from 17 to three; within each price zone the base price will be set so as to cover costs of the highest cost producer. Other producers will, as was the case before 1979, pay rent (fixed payments) to the state budget calculated in rubles per ton. A uniform industrial wholesale price is to be set for all consumers. Finally new estimate prices and norms for construction are scheduled to take effect on 1 January 1984.

Strengthened Financial "Levers." Several types of so-called levers are to be strengthened and extended under the new arrangements. They concern use and payments for bank credits, establishment of centralized ministerial funds to be used for financing research and development, and gradual transfer of ministries and enterprises to a system of fixed profit sharing with the budget and to self-financing. With respect to bank credits, revised procedures and rates were introduced in a Council of Ministers decree. Beginning on 1 January 1981, bank monitoring of enterprise finances was increased, higher interest rates were imposed for a variety of stipulated infractions, such as overdue loans, and customers were fined for not paying for orders on time.[34] Finally, enterprises are expected to use bank credits rather than budget grants to an increasing extent, and construction firms are to use bank credits rather than customer advances to finance projects in progress.

To centralize funds for financing research and development, introduce new technology into production, and promote its mastery, the July 1979 Decree provides for establishing in industrial (and presumably other) ministries a single, "unified" fund to finance the planned R&D program and to reimburse enterprises for experimental production and startup costs. Except for a few ministries experimentally using the single fund, such costs had been financed in a variety of ways—but mainly from funds charged to enterprise production costs, contract receipts of research and design institutes, and the state budget. The new fund in each ministry is to be formed by a levy on enterprise profits calculated as a branchwide percentage of the value of net output (marketed output in some branches). The rates are to remain fixed for the five-year plan, and expenditures from the fund are to be based on stable planned allocations. Levies for the unified fund will constitute a major charge on profits—they amounted to 12 to 26 percent (average 12.7 percent) of profits in some of the ministries.[35] In addition to profits, the fund is to be allocated a part of the price markups allowed on high-quality products.

Even under the new arrangements, some R&D work will still be financed from budget funds and bank credits. The norm for forming the unified fund is to be set by the ministry concerned, based on its experience and its planned tasks for research and for mastering new technologies and products. These unified R&D funds are intended to improve ministerial oversight and direction of the R&D process and provide a better vehicle for repaying enterprises promptly for startup costs; failure to do so under the old arrangements was blamed for enterprise reluctance to innovate. Meanwhile, ministerial R&D institutes and design organizations are to be completely transferred to a system of self-finance, and rewards to their personnel are to be based on profits. In the case of individual projects, bonuses are to be related directly to the estimated "useful effect" (cost savings) obtained by users from

adopting the results of the projects.[36] Contracts are to cover each large individual project ordered by a client enterprise, with payment made only when the entire project has been completed and accepted by the client. The institutes and design organizations are to arrange bank financing in the interim.

Ostensibly to motivate ministries and their subordinate units to strive for greater overall efficiency and to show concern for capital assets, the July 1979 Decree directs the transfer—"as they are ready"—of all industrial ministries to total or partial self-financing based on a scheme of profit sharing with the state budget. Long advocated by some economists and resisted by the bureaucracy, this arrangement was put into effect as early as 1971 in the Ministry of Instruments and Means of Automation (Minpribor) and extended with modifications to four other central ministries and a few local units. Two additional central ministries and some union republic ministries adopted the system in 1981.[37] Procedures for transfer to the new arrangements have been spelled out in a Gosplan instruction issued in February 1980, with no timetable specified.[38] Ultimately, the ministries are supposed to apply the system of profit distribution and self-finance to all subordinate enterprises and associations.

The July 1979 Decree and Gosplan's instruction describe the system as follows. The affected ministry (and subunit) shall be assigned a fixed amount of profit in rubles that must be paid into the state budget in each year of the five-year plan; the rest of the profits are to belong to the ministry (or subunit) to finance planned operations, but strictly in accord with plan. The budget's allocation must be paid, even if the annual profit plan is not met. If the profit plan is overfulfilled by 3 percent or less, half the excess profits go to the budget; if overfulfillment is greater, 75 percent of the excess profits go to the budget. The budget's fixed amounts as well as all other rules of the game are supposed to remain unchanged during a five-year period. The budget's share of planned profits is supposed to be set as the sum of (1) the planned capital charge and fixed payments and (2) the difference between total planned profits and all other planned uses. Budget funds and bank credits may be used in cases where planned profits are not sufficient to cover planned investment and other requirements. Finally, ministries and their units must pay the capital charge on above-norm inventories out of the part of profits planned to be retained by them. Units using less capital than planned, and thereby realizing a savings on the capital charge, may keep the savings.

Planning Approaches and Technologies. A major section of the July 1979 Decree is devoted to the theme of improving planning, continuing the *idee fixe* that better plans will produce better, that is, more efficient performance. Although none of the approaches adopted in this round of reforms is new, some of them receive much greater stress than in the past.

First, the decree aims to accomplish in the 1981-85 plan what was supposed to (but did not) happen in the past two plans—namely, making the five-year plan the center of focus. The plan is to remain stable, it is to be subdivided by years, and the incentive mechanism is geared to meeting five-year goals; that is, the size of bonus funds and rights to bonuses depend on meeting an annual plan that reflects its cumulative contribution to meeting those goals.

Second, even greater stress is placed on the system of counterplanning, whereby enterprises and their personnel are rewarded for voluntarily adopting an annual or five-year plan that sets higher targets than those set for the enterprises in the original plan.

Third, the elusive "balance" in the input-output relations embodied in the plans is to be ensured, this time by considerably increasing the number of planned balances developed at the center, notably the already numerous material balances and plans of distribution. Regional plans are to be made more realistic and balanced by giving a larger role to local planning agencies. This aim was embodied in yet another government decree (published in March 1981) increasing the powers of local soviets with regard to central ministries by requiring that the latter obtain concurrence of the soviets for those parts of their plans (and any changes in them) that concern matters of "land use, environmental protection, construction,

use of labor resources, production of consumer goods, and local infrastructure serving the population." [39] Material balances are to be developed by republic for the five-year plan, and labor balances by region and locality for annual and five-year plans.

Fourth, more plan targets and associated norms are to be specified for enterprises by the center, and in greater detail than before.

Fifth, the second phase of the computerized planning scheme is to be put into operation; its purpose is to speed up planning and raise the quality of plans through use of mathematical optimizing models and input-output techniques.

Sixth, great stress is placed on ensuring that plans remain stable for the five-year period, particularly investment plans that are to be fully backed by appropriate allocations of inputs and, once approved, not to be altered.

Seventh, this round of planning innovations substantially upgrades the status of and importance attached to so-called comprehensive or program-goals planning approaches, with the aim of focusing attention and resources on national or regional problems that cut across many sectoral lines. The desire to base five-year and long-term plans on the most realistic and comprehensive long-term scientific and technical forecasts possible is also involved. In this way, Soviet planners hope to reap the fruits of the scientific-technical revolution. The rhetoric on this theme has become a floodtide, whose essence is frequently murky. There are three basic types of these comprehensive programs—scientific-technical programs (*nauchno-tekhnicheskiye programmy*) intended primarily to guide scientific research and development, targeted economic programs (*tselevyye kompleksnyye narodnokhozyaystvennyye programmy*) aimed at coping with an economywide problem, and comprehensive programs for developing a particular region (*territorial'no-proizvodstvennyye kompleksy*). Gosplan has promulgated methodological directives for preparing plans for such comprehensive programs.[40]

In May 1980, according to A. Bachurin, a Gosplan deputy chairman, Gosplan, the State Committee for New Technology, and the Academy of Sciences formally ratified a list of 40 comprehensive scientific-technical programs and 120 programs to solve specific scientific and technical problems; most of these programs are to be implemented in the 1981-85 plan and the rest in the 1986-90 plan.[41] The same spokesman also states that 14 key "economic, social, and technical programs" will be developed on the basis of published Gosplan methodologies "in the near future." Among them are programs for reducing the use of manual labor, stimulating more efficient use of fuels and energy, conservation of metals, expanding production of new consumer goods and development of the Baikul-Amur railroad (BAM) area. The Gosplan spokesman then states, "Development of the food program will be important for the nation." [42] An editorial in the April 1981 issue of Gosplan's *Planovoye khozyaystvo* states that "comprehensive programs should become an integral part of the new five-year plan. Priorities are food, development of the production of consumer goods and services, reduction of manual labor, upsurge of machinery, energy and transport, and likewise other large-scale programs." [43]

The directives for the 1981-85 plan do not list any specific comprehensive programs, although they do refer to seven specific territorial-production complexes or regional comprehensive programs: Western Siberia, Kansk-Achinsk, South Yakutia, Timano-Pechora, Kursk Magnetic Anomaly, Sayan, and Pavlodar-Ekibastuz.[44] The directives also state the intent to continue the comprehensive program for developing the Non-Black Soil Area. Writing in the February 1981 issue of Gosplan's journal, D. Zhimerin, Deputy Chairman of the State Committee for New Technology also refers to the 160 programs approved for the 1981-85 plan, stating further that 38 of them have been singled out as especially important, targeted programs.[45] He states that these programs provide for all necessary measures and assignments of responsibilities for carrying them out. He also mentions the formulation of complex programs for fuel and energy, 13 programs for machinery, and 18 programs concerning the agro-industrial complex, six of them

scheduled for implementation with specific resource allocations. Coordinating commissions consisting of leading scientists and specialists have been approved for the programs. Some of the programs for the plan period provide timetables for organizing serial production of new products based on completed research and design work, thereby reducing the usual large delay between completed research and the mastery and production of products. In January 1982, Gosplan Deputy Chairman A. Bachurin wrote that only 11 designated comprehensive programs had been included in the approved five-year plan.[46]

Changes in Organizational Structures. The July 1979 Decree specifies that the formation of production associations as the basic production unit in industry (rather than enterprises) is to be completed in the "next two to three years." Production associations are amalgamations of enterprises producing similar products or located in the same area. Science-production associations include research institutes, along with producing enterprises. At the end of 1980, there were 4,083 production and science-production associations; they accounted for 48.2 percent of total industrial output.[47] Although the associations are supposed to merge enterprises, more than two-fifths of their constituent units are independent enterprises.

In his speech to the 26th party congress in February 1981, Brezhnev stressed the need to develop organizational forms to better coordinate activities of the numerous branch ministries in matters that cross sectoral lines. But the July 1979 Decree is silent on the matter, and the 1981-85 plan directives are vague. The decision seems to have been taken to accomplish the coordination by proliferations of special commissions of the Council of Ministers and Gosplan and by appropriate reorganization of the internal structure of Gosplan. The following actions have been reported:

- A commission of the Council of Ministers was established, probably in 1980, to oversee development of the West Siberian oil and gas complex; an interdepartmental commission under Gosplan was located in Tyumen'.[48]

- A party-government decree of July 1981 established an interdepartmental commission under the Council of Ministers for conservation of raw materials, fuel, and energy.[49] Its chairman is V. N. Martynov, head of the State Committee for Material-Technical Supply. Counterpart commissions are to be set up in republics, krays, and oblasts and also in individual ministries.

- In 1981 a new State Committee for the Supply of Petroleum Products was established under the Council of Ministers; its chairman is T. Z. Khuramshin.[50] Apparently, this new committee takes over the functions of a network of petroleum product supply administrations that were subordinate to republic Councils of Ministers and to the State Committee for Material-Technical Supply.

- Gosplan has established several interdepartmental commissions—for energy, BAM, rationalizations of freight shipments, use of secondary raw materials for the food program, and comprehensive use of minerals.[51] Ya. P. Ryabov, a Gosplan deputy chairman, heads the last two commissions mentioned.

- The internal structure of Gosplan has been reorganized to establish a number of comprehensive departments concerned with major targeted programs.[52] Details of the new internal structure have not been revealed.

- Two new ministries with activities related to the so-called food program have been created. They are the Ministry of the Fertilizer Industry and the Ministry of the Fruit, Vegetable, and Canning Industry.

The New Working Arrangements—In the Right Direction?

The working arrangements set forth in the July 1979 Decree and subsequent issuances do not constitute a reform of the economic system. Planning is more centralized, rigid, and detailed than ever; the scope for initiative of the producing units is more circumscribed; producer goods are more tightly rationed; administratively set, inflexible, average cost-based prices are retained; and intricate incentive systems are tied to meeting plans for many potentially conflicting variables, with priority given to production plans

expressed in physical units. These changes move the system away from what most Western (and some Soviet) observers agree is needed—decentralization, flexibility, and the introduction of market elements.

Increased Centralization. The "new deal" now being implemented substantially increases the scope of central planning and the authority of Gosplan and the central ministries. It does so by increasing the number of products whose production is planned and allocated by Gosplan itself. Moreover, Gosplan is taking on the role of quasi-ministry for a growing number of special projects; technically, these projects are allocated materials and equipment separately from the ministries normally responsible. Gosplan itself determines project requirements, and the number of specific agencies or products to which Gosplan allocates materials and equipment has proliferated as a result (from 92 in 1965 to 136 in 1970, 176 in 1975, and 303 in 1981).[53] A little over one-third of fundholders in 1981 were ministries and the like, and the rest were various special projects (mainly in construction). The changes also reinforce the central role of the industrial ministries, which under the new arrangements arbitrate the formal rules and norms that govern subordinate units—whether enterprises or associations. In practice, the ministries administer the maze of incentive arrangements, interpreting them in ways that ultimately determine the incomes and careers of enterprise managers. They have an array of discretionary reserve funds that can be used to affect the fortunes of subordinate units and their employees. Above all, the ministries are in a key position to delay formal arrangements (for example, profit sharing) that they regard as inimical to the welfare of themselves and their enterprises. By attempting to do more and more in greater and greater detail in Moscow, the central agencies—Gosplan, other state committees, and the ministries—have, in the words of Alec Nove, become more than ever "leather-jacketed Commissars working around the clock to replace the free market."

New Planning Contradictions. Three themes dominate the new emphases and arrangements pertaining to plans themselves: stability of plans and the underlying normative base oriented toward a five-year period, plan balance, and comprehensive, program-goals approaches. The goal of plan stability is to be accomplished largely by fiat, by declaring that plans and their normative underpinnings shall not be altered for the plan period. To pursue such a goal is to chase a chimera. Planners cannot foresee the future, forecasts frequently fail, and change and uncertainty are the essence of life. Frequent alterations in plan targets will and must continue. Failure to adjust targets to actual changes in supply and demand would simply compound the rigidities and inefficiencies endemic to the Soviet production system, perhaps even bringing it to a halt.[54]

In this round of adjustments in economic working arrangements, the long-sought balance (consistency between planned outputs and the requisite inputs) is to be accomplished in both annual and five-year plans through proliferation and modernization of the time-honored system of norms relating inputs to outputs and through an *ukaz* declaring that no investment project is to be included in a plan for a given year or five-year period unless it is fully backed with the requisite input allocations. In pursuit of the elusive balance and the even more elusive efficiency in plans, Gosplan has been overseeing a massive effort to review, update, and proliferate norms of all kinds throughout the economy. Presumably, some initial results of this undertaking have formed the underpinnings for the 1981-85 plan. On paper, of course, the production plan can be balanced by adjusting input-output norms and norms governing schedules for constructing and assimilating production capacities. No doubt this plan and all future plans when announced will be declared to have been carefully balanced. There is no reason to think, however, that in practice matters will be any different from those of the past. Events will show no doubt that the original norms were too optimistic about input requirements and mastery of new capacities. Moreover, even if the planned normative relationships were realistic at the time of formulation, they involve technical forecasts and output projections, both of which may be in error because of unpredictable real world events—for example, unexpected crop sizes and difficulties in operating new plants and processes. Meanwhile, the attempt to greatly increase the number of input-saving targets that are set for enterprises increases the potential for error, and monitoring and enforcing the

targeted savings will add greatly to the administrative burden on the bureaucracy's higher echelons. Finally, an added contradiction is inherent in the scheme of counterplanning, where enterprises undertake to do more than the approved plan requires and are rewarded for doing so.

The notion of comprehensive, goal-oriented planning seems sensible. In fact, however, superimposing this type of planning—for solving large-scale problems or developing a large region—complicates the planning processes in an economy that has always been centrally administered along sectoral lines. Because of rampant, increased centralization and retention of sectoral management, all of the existing planning routines and computations must be retained. Now, the already overburdened central bodies must compile detailed plans for each of the many complex programs, ensure that their inputs and outputs are provided for and are consistent with all other sectoral plans, and see that the detailed requirements of a given program are introduced as separate line items in thousands of ministerial, sectoral, and enterprise plans so as to ensure implementation of the program. This is a herculean task. At the moment, Gosplan evidently is trying to cope with at least 11 comprehensive economic and perhaps 60 scientific-technical programs. In this effort, Gosplan is spawning new departments and commissions, not only to plan the programs but also to participate in their implementation. Thus, the administrative burden on higher echelons multiplies, and so will the economic inefficiencies stemming from excessive centralization of decisionmaking.

Fettering the Producing Unit. Although production associations are slated to become the basic producing unit for industry by 1985, experience with them in the 1970s suggests that their formation has made little difference. The press confirms that formation of associations has involved much formalism, with many of their constituent units still retaining the status of independent enterprises with separate balance sheets. Many associations consist of only two or three plants; the desired concentration and specialization have not taken place to any extent, and the anticipated large benefits have yet to materialize. Rather, their formation, to the extent that actual merger has taken place, has increased the average size of Soviet industrial enterprises, already excessive by international standards. The millions of small, independent, efficient subcontractors—so much a part of the industrial structure in Western countries—have yet to appear on the Soviet scene. The latest set of changes in working arrangements, including formation of the associations, is not conducive to their emergence. Because of the scarcities of real inputs looming in the 1980s, the pressure for self-sufficiency will be greater than ever.

Although one objective of the new arrangements is to provide for the proper combination of centralized planning with enterprise independence and initiative, the new rules of the game enmesh the producing unit and its managerial staff in an even denser thicket of targets, norms, rules, and incentive schemes than did the previous working arrangements. The list of centrally set plan goals and norms for enterprises is longer than before and covers everything that matters:

- Growth of output (net or gross) in value terms.
- Production of principal products in physical units, many more than before.
- Growth of output of products in the highest quality category.
- Growth of labor productivity.
- Normative wages per ruble of output.
- Number of employees.
- Assignment for reduction of manual labor.
- Norms for forming three incentive funds and the fund for financing research and development.
- Total profits.
- Commissioning new production capacities.
- Ruble ceiling on investment.
- Assignments for new products and introducing new technologies.
- Indicators of the technical level of production, for example, extent of automation or quality of products.
- Economic benefits to be obtained from introduction of R&D work.
- Allocations of principal raw materials and machinery.
- Targets for reduction in use of principal physical resources, many more than before.
- Sales of products and payments to and assignments from the state budget to be in annual plans (also set for five-year plans, if a fixed profit-sharing arrangement has been adopted).

Moreover, the July 1981 decree adds, beginning in 1983, goals for production cost with a ceiling on the value of raw materials included in cost. Besides these centrally set targets in its plans, the association or enterprise is supposed to conform to the requirements of labor norms and staffing patterns, product standards and requirements for product certification, and numerous other rules governing one or another aspect of its operations.

The new arrangements add considerably to the already mazelike intricacy of the incentive schemes to motivate enterprise personnel, particularly managerial staffs, to strive to produce more with less. Although there is considerable diversity, the general rules are as follows. First, more than a score of diverse bonus schemes are in effect. Second, the basic bonus funds from which the bulk of managerial bonuses are paid are formed from profits, and their size depends on enterprise performance with respect to labor productivity and the share of products in the highest quality category. Because various kinds of profits are omitted in figuring deductions into the funds, their size is affected by the system of counterplans, by enterprise performance in meeting contracts, and by some other variables. Third, even with money in the bonus funds, the *amount* of an individual manager's bonus for a particular month or quarter depends on meeting the plans for labor productivity, product quality, and profits; his *entitlement* to any bonus or a part of it requires fulfillment of those three plans and also meeting the plans for production of key products in physical units and for product deliveries under contracts. Bonuses are reduced for overexpenditures of wage funds, and ministries may specify additional requirements. Moreover, there are ceilings on the total bonus a manager may be paid. Finally, in 1983, managerial bonuses are to be made dependent also on the actual amount of material expenditures as compared with the limit set. Obviously, the scope for conflict among these multiple factors determining managerial rewards is great, the potential for optimizing (economically efficient) calculations by managers is small, and the potential for new behavioral aberrations is enormous.

Although it is unlikely that ministries and enterprises will shift soon to a profit-sharing system and financial autonomy, some observers believe that the proposed change has considerable potential for inducing more efficient enterprise behavior.[55] To us, however, the scheme has no such potential, a major reason being that it creates an incentive arrangement where the ministry or enterprise assumes all the risk for failure and a sharply decreasing share of the reward for success. The new arrangements, thus, are not a true profit-sharing system; rather, they guarantee a fixed amount of taxes to the budget during each year and five-year period to be paid regardless of the amount of actual profits. The enterprise bears the entire cost of failure to meet the profits plan, regardless of the reasons for that failure; conversely, if the enterprise makes additional profits above those planned, the budget automatically receives half or more of the extra profits. Thus, should an enterprise seek to maximize its profits, most of the reward for extra effort would go to the state treasury. Moreover, under both this and the present system, the enterprise is in no sense the residual claimant to profits with discretion as to their use. Under both, the uses to which all profits can be put are specified by plan or regulations. The government evidently believes that managers cannot competently allocate the fruits of enterprise endeavor.

Profit sharing is part of a broader scheme of requiring ministries and ultimately firms to operate under complete financial autonomy, paying for all operations from profits and bank credit without budget subsidies or investment allocations. This step, it is argued, will induce units to use inputs more efficiently, to be more demanding of suppliers of raw materials and investment goods, and to cater to customers' wishes. The relevant entities, while remaining part of a state-managed production system, are expected to respond like business firms in a competitive market environment. Such an expectation is a grand illusion. Without any alteration in the economic environment, financial autonomy can amount to no more than a change in accounting rules. To induce the desired behavior, firms would have to be given broad freedom of action, alternative suppliers would have to be available, prices would have to reflect relative scarcities and utilities reasonably well, and government

bureaucracies would have to retreat to overseeing the economy rather than directing it through detailed plans. None of these systemic modifications forms any part of the latest reform package.

Impact on Management of Human and Material Resources

Together with the reduced rate of investment, the complex of measures directed mainly at limiting enterprise demand for labor and better coordinating supply and demand in local labor markets may ease those difficult tasks somewhat. Probably, the most effective labor-saving factor, however, will be that the extra workers will simply not be there, so that managers will be forced to make do as best they can. They will find it hard to bid workers away from other firms by offering higher wages, for it is evident that the financial authorities are determined to enforce strict control over wage expenditures and staffing patterns. Their record in this area has been rather good in recent years. The delegation of responsibility to local governments for compiling supply-demand balances for their regions and taking more responsibility for dealing with local problems is a positive step.

These revisions in working arrangements, besides being directed at coping with a long period of low growth in labor supply, are aimed at reducing the demand for intermediate goods (raw materials and energy). These measures include an expanded role for plan targets focused on such savings, tying these targets to the formal incentive system, and a shift from gross to net output as the primary value measure for enterprise production. The new wholesale prices also are structured to the same end—that is, prices of fuels, metals, and lumber will rise sharply relative to prices of final goods such as machinery. The entire system of norms, both for materials and labor, is being revised to make them taut; it is these new norms that will underlie plan targets for specific material resource savings, for labor productivity, and for cost. Tightened input norms and limits on resource use are parts of a proven method—a system of routines and pressures that in the past has enabled the economy to improve in the physical efficiency of resource use—tons of steel or kilowatt-hour of electricity per million rubles of machinery or construction. Tying material resource savings and cost reduction to the bonus system is new, despite the abortive attempt made in the early 1960s. The difficulty is that these incentive arrangements are only part of an incredibly complex system of rewards and penalties. The most notable innovation is the adoption of net output, in place of gross output, as the primary measure of the value of enterprise production.

The new rules add new indicators but do not replace old ones, thus proliferating conflicts and inconsistencies in the structure of regulators, rewards, and penalties that confront producing units and their managers. Thus, gross value measures continue to be a feature of the system, because firms are set targets for sales, which are the sum of contractual obligations, broken down as always into physical units and their corresponding prices. Managers' bonuses depend on meeting plans for contractual obligations and for key products in physical units. In such an environment, rife with potential conflicting signals, the need to pay at least some attention to yet another variable—net output—will produce its own aberrations. Indeed, some press reporting has already alluded to such possibilities, and has reported their appearance in the behavior of enterprises already experimenting with the net output measure.[56] Because the principal component is wages, enterprises may be led to prefer labor-intensive products. Also, the revealed preference for producing those products that an arbitrary pricing system has made most profitable may be enhanced by the new indicator; one prominent minister has already declared that to be the case.[57]

These new working arrangements attack the problem of upgrading the quality of Soviet products and prolong the incentive arrangements and the grading of products by quality that has been in effect since 1972. An outpouring of statistics would seem to support belief in a "great leap forward" in the average quality of Soviet products. As of 1 October 1980, over 85,000 products, accounting for 15.2 percent of the gross value of industrial output, had been awarded the Seal of Quality, signifying that their specifications were the best in the USSR and met world standards.[58] In 1975 the share was 6.5 percent. During the 1976-80

five-year plan, the shares of output assigned to the highest quality category for various kinds of machinery reportedly increased as follows: power transformers—from 40.18 to 53.2; metal-cutting machine tools—from 19.2 to 44.2; forge and press machinery—from 16.3 to 39.7; and machinery industries as a whole—from 18.5 to 32.6.[59] In light industry, however, the share was only 7.1 percent.[60] Data of this kind are also given for particular ministries. These statistics may not actually reflect achievements because (except for a few machines, such as cars and ships), Soviet exports of machinery to the West did not rise, and because factor productivity in industry has continued to deteriorate, despite the infusion of all of those supposedly high-quality machines.

The new price markups provide higher profit rates for new and high-quality products, so as to encourage their production in competition with highly profitable old products that constitute the bulk of output. Thus, sale of highest quality products in 1980 contributed only from 1.8 to 8.6 percent of the total profits among 12 machinery ministries, with an average of 3 percent for all machinery.[61] The new mandatory product certification procedures, along with substantially higher profit markups and the longer duration allowed on new and more efficient products and machinery, may indeed induce producers to put out such products. Whether the outcomes will be real or spurious depends on whether products certified as meeting world standards actually do so. One would expect to find evidence of product quality in the increased salability of Soviet manufactures in world markets, increased efficiency of domestic production, diminished unsellable stocks, and fewer complaints by consumers.

The extremely intricate working arrangements that constitute the latest round of changes in planning and incentive arrangements are no panacea for the Soviet economy. Those ills stem largely from three fundamental features of the system: (1) the lack of a reliable (efficient) guide to choice, (2) the attenuated influence of consumers on producers, and (3) the absence of the discipline of competition among suppliers. Even the reformed prices will be poor indicators of real resource costs. The absence of efficient prices deprives all derivative value categories—sales, value of net or gross output, profits, profitability—of genuine economic content. Thus, efforts to induce economizing behavior from producers by tying rewards and penalties to meeting targets for any or all of these categories are doomed. Enterprises can be expected to respond to the modified incentive structure by focusing on those aspects of performance that they perceive have highest priority in the judgment of superior bodies. Manipulation of product mixes in the interest of meeting one or another value targets, for example, profits, is likely to be pursued in the interest of meeting the plan rather than the requirements of customers. Response to new relative prices for labor and materials is likely to be slow and limited. Because most of these prices are based on average rather than marginal costs, widely varying profit rates will prevail. As in the past, efficient firms will have their excess profits confiscated by the budget, and unprofitable firms will continue to be subsidized. There is no reason to think that "socialist" firms will be allowed to go bankrupt.

Indeed, an argument can be made that any really serious effort to implement widely the latest basket of innovations in planning and management will make matters worse. The greatly increased centralization and complexity of planning will push the bureaucracies to the limits of their capabilities. The perennial changes in the rules of the game facing the producing units distract their managerial staffs from the business of running their firms and make decisionmaking at that level extremely difficult. The avalanche of regulations, norms, and incentive rules directed at reduced use of physical resources, together with the campaignlike approach that is being used to help solve this problem, is unlikely to induce resource savings at rates any higher than in the past. In fact, many economically inefficient consequences could ensue from this approach, which seems to be based on the notion that "any reduction in energy or metal or labor per unit of output is a universal good." This fixation would preclude decisions in particular cases, for example, to produce a product with higher content of steel per unit of output, even though that product would sell easily or enable some producer to reduce his product costs. These economically efficient choices

are denied the Soviet economy because of inefficient guides to economic choice and the lack of consumer guidance of production. The absence of these features over a half century of production activity and politically motivated choice has produced a pattern of physical resource use that deviates in millions of detailed ways from an economically efficient pattern. These distortions have now become so pervasive that they constitute severe fetters on production. Bit by bit, the physical production plant has been put out of kilter throughout the entire production-distribution chain. The present round of reforms does nothing to correct it.

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Appendix

Effect of New Arrangements on Economic Data

Adoption of the new prices in 1982 will affect some series of economic data, certainly for industry and probably ultimately for most other sectors. Specifically:

- Production cost (*sebestoimost'*) now will include all geological prospecting costs; only a part of such costs had been previously included.
- Cost will include increased stumpage fees to cover all costs of forest maintenance.
- Cost will include an average 50-percent increase in social insurance taxes, which differ among branches.
- Cost will now include a new differentially levied charge for industrial use of water.
- Cost will no longer include the explicit charge levied differentially to cover part of ministerial research and development outlays.
- Profits will now be charged with a substantial levy to finance the new centralized R&D funds of ministries.
- The Soviets may elect to calculate the official index of industrial production on the basis of net output instead of gross output. In any case, they probably will shift the price base for the index to 1982, linking the index in constant prices for earlier years to the index calculated with 1982 prices.
- Payments for bank credit are likely to become a significantly larger charge on profits than before.
- Budget revenues will be expanded by the new or higher charges for geological prospecting costs, stumpage fees, water levies, and social insurance charges. The contribution of profits to budget revenues can be expected to drop relative to that of the turnover tax and other revenues.

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Footnotes

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[redacted]

[2] The text of Decree No. 695 is given in *Sobraniye postanovlenniy pravitel'stva SSSR*, No. 18, 1979, pp. 390-431.

[3] *Ekonomicheskaya gazeta*, No. 4, 1981, p. 10.

[4] *Izvestiya*, 29 March, 1981.

[5] The following are typical of the discussion of these matters: *Sotsialisticheskiy trud*, No. 9, 1980, pp. 80-93; ibid., No. 5, 1981, pp. 30-39; *Ekonomicheskaya gazeta*, No. 4, January 1981, p. 10, and No. 43, October 1981, p. 10; *Voprosy ekonomiki*, No. 10, 1981, pp. 73-80.

[6] *Ekonomicheskaya gazeta*, No. 10, March 1980, pp. 11-14.

[7] The instructions for calculating normative wages per unit of output are given in ibid., No. 45, November 1979, p. 6. For a discussion of the Shchekino experiment, see "Soviet Economy on a Treadmill of Reforms," pp. 329-330.

[8] *Ekonomicheskaya gazeta*, No. 3, January 1982, p. 6. For a discussion of the Shchekino experiment, see "The Soviet Economy on a Treadmill of Reforms," pp. 329-330.

[9] *Voprosy ekonomiki*, No. 3, 1981, p. 140.

[10] *Sovershenstvovaniye khozyaystvennogo mekhanisma: sbornik dokumentov*, Moscow, 1980, pp. 83-84.

[11] *Voprosy ekonomiki*, No. 3, 1981, pp. 136-137.

[12] *Izvestiya*, 24 November 1981.

[13] *Ekonomicheskaya gazeta*, No. 16, April 1980, p. 6.

[14] Ibid., No. 10, 1980, pp. 11-14.

[15] *Planovoye khozyaystvo*, No. 8, 1981, pp. 31-32.

[16] *Izvestiya*, 4 July 1981.

[17] Ibid., 8 March 1981.

[18] *Ekonomicheskaya gazeta*, No. 12, March 1981, p. 4.

[19] *Voprosy ekonomiki*, No. 10, 1980, p. 133.

[20] *Planovoye khozyaystvo*, No. 11, 1981, p. 29.

[21] *Sovershenstvovaniye*, p. 68.

[22] *Ekonomicheskaya gazeta*, No. 51, December 1979, p. 26.

[23] Ibid., No. 35, August 1980, pp. 11-14; *Sobraniye postanovlenniy Sovetov Ministrov SSSR*, No. 2, 1980, pp. 27-31.

[24] Ibid., No. 21, July 1981, p. 8.

[25] *Sotsialisticheskaya industriya*, 29 January 1981.

[26] *Khozyaystvo i pravo*, No. 12, 1980, p. 10.

[27] *Ekonomicheskaya gazeta*, No. 20, May 1981, pp. 9-16; ibid., No. 21, May 1981, pp. 9-16.

[28] *Planovoye khozyaystvo*, No. 8, 1980, pp. 42-43.

[29] Major sources are *Voprosy ekonomiki*, No. 6, 1980, pp. 12-21; *Neftyannaya promyshlennost'*, No. 7, 1981, pp. 2-5; *Kommunist*, No. 8, 1980, pp. 45-59; *Planovoye khozyaystvo*, No. 5, 1980, pp. 33-43; and *Sotsialisticheskaya industriya*, 11 February 1981.

[30] *Voprosy ekonomiki*, No. 2, 1981, p. 22.

[31] *Ekonomicheskaya gazeta*, No. 21, May 1980, p. 7.

[32] V. V. Lavrov et al, eds., *Gosudarstvenniy byudzhet SSSR*, Moscow, 1981, p. 311.

[33] *Planovoye khozyaystvo*, No. 7, 1981, p. 123.

[34] *Ekonomicheskaya gazeta*, No. 29, July 1980, pp. 11-12.

[35] *Voprosy ekonomiki*, No. 2, 1981, p. 133.

[36] *Ekonomicheskaya gazeta*, No. 9, February 1980, p. 10; ibid., No. 22, 1980, pp. 11-14.

[37] *Ekonomicheskaya gazeta*, No. 29, July 1981, p. 8.

[38] *Ekonomicheskaya gazeta*, No. 19, May 1980, pp. 7-8.

[39] *Izvestiya,* 29 March 1981.

[40] *Ekonomicheskaya gazeta,* No. 13, March 1980, p. 6; ibid., No. 29, July 1980, pp. 11-14.

[41] *Planovoye khozyaystvo,* No. 1, 1981, pp. 22-23.

[42] Ibid., p. 22.

[43] Ibid., No. 4, 1981, pp. 6-7.

[44] *Pravda,* 2 December 1980.

[45] *Planovoye khozyaystvo,* No. 2, 1981, pp. 22-24.

[46] *Economicheskaya gazeta,* No. 1, January 1982, p. 1.

[47] *Narodnoye khozyaystvo SSSR v 1980 godu,* p. 121. For a discussion and evaluation of the drive to establish the associations, see "Soviet Economy on a Treadmill of Reforms," pp. 315-318.

[48] *Pravda,* 24 February 1981.

[49] *Izvestiya,* 4 July 1981.

[50] *Pravda,* 30 June 1981.

[51] *Ekonomicheskaya gazeta,* No. 29, 1981, p. 8; *Planovoye khozyaystvo,* No. 6, 1980, pp. 127-128; ibid., No. 1, 1981, p. 126.

[52] *Kommunist,* No. 10, 1981, p. 37.

[53] *Planovoye khozyaystvo,* No. 8, 1980, p. 35.

[54] For treatment of this point, see the *Journal of Comparative Economics,* vol. I, No. 1, 1977, pp. 51-76, Raymond P. Powell, "Plan Execution and the Workability of Soviet Planning."

[55] Nancy Nimitz, *The July 1979 Decree and Soviet Economic Reform,* working draft, Rand, October 1981.

[56] *Planovoye khozyaystvo,* No. 6, 1980, p. 9.

[57] Ibid., p. 116.

[58] *Voprosy ekonomiki,* No. 12, 1980, p. 115.

[59] Ibid., p. 117.

[60] *Finansy SSSR,* No. 4, 1981, p. 45.

[61] *Ekonomicheskaya gazeta,* No. 44, October 1981, p. 21.

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